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Jun 30 2011

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

June 30, 2011

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(Unaudited)

June 30, 2011

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2014
Beth O'Halloran	Missoula	January 1, 2014
Wilbur Rehmann	Helena	January 1, 2013
Craig Anderson	Glendive	January 1, 2013
Leo Prigge	Butte	January 1, 2015

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Brian Schweitzer
Director of Dept. of Administration – Janet Kelly
Legislative Auditor – Tori Hunthausen
President of the Senate – Jim Peterson
Speaker of the House – Mike Milburn

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Pat Ingraham, Chair
Gerald Bennett, Vice Chair (R)
Franke Wilmer, Vice Chair (D)
Bryce Bennett
Joanne Blyton
Pat Connell
Betsy Hands
Gordon Hendrick
Douglas Kary
Dan Kennedy
James Knox
Gary MacLaren
Tom McGillvray
Jean Price
Derek Skees
Frank Smith
Kathy Swanson
Ted Washburn

HOUSE – Business & Labor Committee

Elsie Arntzen, Chair
Tom Berry, Vice Chair (R)
Chuck Hunter, Vice Chair (D)
Carlie Boland
Christy Clark
Virginia Court
Lila Evans
Tim Furey
Edward Greef
Harry Klock
Jonathan McNiven
Pat Noonan
Scott Reichner
Michele Reinhart
Matthew Rosendale
Daniel Salomon
Sterling Small
Cary Smith
Carolyn Squires
Gordon Vance
Jeffrey Welborn

SENATE – State Administration Committee

Jim Shockley, Chair
Ron Arthun, Vice Chair (R)
Jonathan Windy Boy, Vice Chair (D)
Joe Balyeat
Anders Blewett
Larry Jent
Llew Jones
Carmine Mowbray

SENATE – Business, Labor, & Economic Affairs Committee

Joe Balyeat, Chair
Verdell Jackson, Vice Chair (R)
Mitch Tropila, Vice Chair (D)
Tom Facey
Eric Moore
Carmine Mowbray
Donald Steinbeisser
Sharon Stewart-Peregoy
Bruce Tutvedt
Gene Vuckovich
Jonathan Windy Boy

Montana LOTTERY
For the fun of it! 2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

September 2011

Montana Lottery Commission:

The past quarter has been an active one. We have had a busy summer with our three events/fairs, our planning for the upcoming changes in Powerball, and the new EZ Play games which will be rolled out very soon.

This fiscal year, the Lottery has seen mostly decreases in sales, with the exception of one, but has still increased the total transfer to the general fund which is great news.

Scratch games have experienced an increase compared to last fiscal year with a 5.5% bump.

All other games have seen a decreases compared to last fiscal year. Powerball sales were 17.1% lower, Montana Cash sales were 5.3% lower, Wild Card sales were 20.1% lower, Hot Lotto sales were 12.4% lower, and Montana Millionaire sales were lower by 7.9%.

Overall, there was a slight decrease in operating revenue of 1.8% along with a decrease in direct game costs of 3.0%. Combined with a 4.6% increase in operating expenses, the transfer for the fiscal year was $10,611,185, which is $84,264 more than last fiscal year. The percentage of transfer to revenue was 23.0% this year compared to 22.5% last fiscal year.

The Lottery introduced 40+ new scratch games during the fiscal year 2011. We plan to continue building scratch sales through innovative game themes and offering games with built-in name recognition (licensed property games).

We are looking forward to a busy fall with another season of Fantasy Football and Montana Millionaire along with our new games.

Sincerely,

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET ASSETS
JUNE 30, 2011 AND 2010
(Unaudited)

	Period Ended June 30, 2011	Period Ended June 30, 2010
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,717,838	$ 2,995,655
Receivables (Net)	1,825,263	1,786,398
Inventories	367,625	528,373
Inventories - Work in Process	669,500	0
Cash Collateral - Security Lending	29,168	45,616
Other Current Assets	27,175	90,497
TOTAL CURRENT ASSETS	5,636,569	5,446,539
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,415,766	1,460,176
Leasehold Improvements	45,448	45,448
Receivable - Equipment	0	1,625,000
Accumulated Depreciation	(725,205)	(456,052)
Investments	37,214	71,375
Multi-State Reserve fund	1,688,570	1,430,386
TOTAL NONCURRENT ASSETS	3,461,793	4,176,333
TOTAL ASSETS	$ 9,098,362	$ 9,622,872
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 470,618	$ 1,027,549
Estimated Prize Liability	1,731,441	2,570,063
Transfer Obligations	2,787,352	2,467,133
Liability under Security Lending	29,168	45,616
Deferred Revenue	131,262	137,757
Compensated Absences	129,540	108,283
Current Portion Long-Term Debt	72,168	0
TOTAL CURRENT LIABILITIES	5,351,549	6,356,401
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,525,857	1,223,060
Compensated Absences	69,629	118,550
Leases Payable	270,629	0
OPEB Liability	398,855	299,861
TOTAL NONCURRENT LIABILITIES	2,264,970	1,641,471
TOTAL LIABILITIES	7,616,519	7,997,872
NET ASSETS		
Invested in Capital Assets, net of related det	1,736,009	1,120,947
Unrestricted Net Assets	(254,166)	504,053
TOTAL NET ASSETS	1,481,843	1,625,000
TOTAL LIABILITIES AND NET ASSETS	$ 9,098,362	$ 9,622,872

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS AND YEARS ENDED JUNE 30, 2011 AND 2010
(Unaudited)

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Year Ended June 30, 2011	Year Ended June 30, 2010
OPERATING REVENUES:				
Scratch ticket revenue	$ 3,775,787	$ 3,310,646	$ 15,064,556	$ 14,274,286
Powerball revenue	3,645,813	4,262,424	14,477,777	17,459,584
Montana Cash revenue	856,270	1,063,939	3,799,317	4,012,475
Wild Card revenue	561,634	558,247	2,342,224	2,933,181
Hot Lotto revenue	891,798	987,006	3,873,987	4,423,672
Mt. Millionaire revenue	0	(120)	2,269,360	2,463,380
Mt. Sports Action revenue	771	(2,049)	4,486	9,783
Mega Millions revenue	804,426	588,002	3,486,197	732,684
10 Spot revenue	162,567	254,362	721,878	553,536
License, permits, and misc	1,145	6,440	8,450	10,878
Total Operating Revenues	10,700,211	11,026,897	46,048,232	46,873,459
Less Direct Game Costs.				
Scratch ticket prize expense	2,079,683	2,534,004	8,990,017	9,361,059
On-line ticket prize expense	3,399,411	3,815,375	15,787,901	16,580,066
Retailer commission	618,903	222,090	2,716,363	2,336,036
Cost of tickets sold	218,219	150,564	1,059,590	1,193,018
Vendor fees	616,794	715,714	2,759,777	2,811,246
Total Direct Game Costs	6,931,010	7,437,747	31,313,648	32,283,425
Income Before Operating Expenses	3,769,201	3,591,150	14,734,584	14,590,034
OPERATING EXPENSES:				
Advertising	24,440	150,657	638,550	617,438
Advertising Production	47,661	90,358	249,447	429,878
Audit Fees	29,847	35,264	36,757	71,160
Bad Debts Expense	1,323	3,546	362	3,546
Communications	31,829	46,652	131,321	83,752
Contractual Services	4,343	21,879	106,444	203,802
Depreciation and Amortization	257,447	19,957	373,537	161,934
Interest	21,987	0	21,987	0
Administrative Service Fee	16,671	15,325	66,685	64,460
Multi-State Dues	3,427	0	45,530	47,973
Public Relations	5,297	26,598	34,414	51,448
Other	3,680	19,633	33,945	63,268
Personal Services	487,034	475,099	1,834,607	1,816,562
Repairs and Maintenance	3,223	4,292	18,539	20,429
Supplies and Materials	116,932	(6,403)	389,847	161,597
Travel	5,067	666	39,928	56,002
Utilities and Rent	(31,649)	36,080	154,956	139,054
Total Operating Expense	1,028,559	937,803	4,176,876	3,994,303
Operating Income	2,740,642	2,653,347	10,557,708	10,595,731
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,529	3,312	8,296	16,333
Security Lending Income	1,292	1,203	1,292	1,203
Security Lending Expense	(274)	(406)	(274)	(406)
Gov FA Disp Proceeds	0	686	0	686
Gain/Loss on sale of asset	0	(2,953)	0	(2,953)
Capital Contribution - Non State	0	1,625,000	0	1,625,000
OPEB Expenses	(98,994)	(83,673)	(98,994)	(83,673)
Total Nonoperating Revenues(Expenses)	(96,447)	1,543,169	(89,680)	1,556,190
Income Before Operating Transfers	2,644,195	4,196,518	10,468,028	12,151,921
Operating Transfers In - General Fund	(2,787,352)	(2,571,516)	(10,611,185)	(10,526,921)
Total Operating Transfers Out - General Fund	(2,787,352)	(2,571,516)	(10,611,185)	(10,526,921)
CHANGE IN NET ASSETS	(143,157)	1,625,000	(143,157)	1,625,000
Total Net Assets, Beginning of Period	1,625,000	0	1,625,000	0
TOTAL NET ASSETS, END OF PERIOD	$ 1,481,843	$ 1,625,000	$ 1,481,843	$ 1,625,000

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

	Budget Fiscal Year July 1, 2010 - June 30, 2011	Actual Year Ended June 30, 2011 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ $15,600,000	$ 15,064,556	96.57
Powerball revenue	17,000,000	14,477,777	85.16
Montana Cash revenue	3,800,000	3,799,317	99.98
Wild Card revenue	2,800,000	2,342,224	83.65
Hot Lotto revenue	3,500,000	3,873,987	110.69
MT Millionaire	2,500,000	2,269,360	90.77
MT Sports Action (Admin Fees)	12,000	4,486	37.38
10 Spot	2,100,000	721,878	34.38
Mega Millions	1,300,000	3,486,197	268.17
License, permits, and miscellaneous	4,000	8,450	211.25
Total Revenues	48,616,000	46,048,232	94.72
DIRECT GAME COSTS:			
Prizes - Scratch ticket	9,516,000	8,990,017	94.47
Prizes - Lotto games	15,250,000	14,329,551	93.96
Prizes - MT Millionaire	1,460,000	1,458,350	99.89
Retailer commissions	2,818,800	2,716,363	96.37
Ticket cost - scratch games	908,264	1,059,590	116.66
Ticket cost - vendor fees	2,812,000	2,759,777	98.14
Total Direct Game Costs	32,765,064	31,313,648	95.57
OPERATING EXPENSES:			
Advertising	691,000	638,550	92.41
Advertising Production	200,250	249,447	124.57
Audit Fees	36,758	36,757	100.00
Communications	122,673	131,321	107.05
Contractual Services	137,045	106,444	77.67
Interest	21,987	21,987	
Administrative Service Fee	66,685	66,685	100.00
Multi-State Dues	41,100	45,530	110.78
Public Relations	50,000	34,414	68.83
Other	44,212	33,945	76.78
Personal Services	1,752,431	1,834,607	104.69
Repairs and Maintenance	32,543	18,539	56.97
Supplies and Materials	363,357	389,847	107.29
Travel	64,864	39,928	61.56
Utilities and Rent	229,268	154,956	67.59
Total Operating Expenses	3,854,173	3,802,957	98.67
Operating Income	11,996,763	10,931,627	91.12
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	10,000	6,879	68.79
NET INCOME (BUDGETARY BASIS)	$ 12,006,763	$ 10,840,530	90.29
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	0	0	0.00
Adjustment for depreciation expense	(166,053)	(373,537)	224.95
MUSL interest earnings	5,000	1,417	28.34
Total Reconciling Items	(161,053)	(372,502)	
NET INCOME (GAAP BASIS)	$ 11,845,710	$ 10,468,028	88.37

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE YEAR ENDED JUNE 30, 2011

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT. MILLIONAIRE	MEGA MILLIONS	10 SPOT	MT SPORTS ACTION	ADMIN
REVENUES:	$ 15,064,556	$ 14,477,777	$ 3,799,317	$ 2,342,224	$ 3,873,987	$ 2,269,360	$ 3,486,197	$ 721,878	$ 4,486	$ 8,450
DIRECT GAME COSTS:										
Prize Expense	8,990,017	6,752,736	2,142,824	1,249,325	1,874,828	1,458,350	1,768,595	404,312	0	136,931
Retailer Commissions	1,167,822	723,845	189,970	117,105	193,682	113,468	174,309	36,162	0	0
Cost of Tickets Sold	1,059,599	0	0	0	0	0	0	0	0	0
Vendor Fees	892,443	864,108	235,188	149,130	239,370	131,623	205,207	42,708	0	0
NET OPERATING REVENUE	2,954,684	6,137,088	1,231,335	826,664	1,566,107	565,919	1,338,086	238,696	4,486	(128,481)
OPERATING EXPENSES:										
Advertising	50,139	62,182	23,801	23,801	25,152	152,794	69,521	23,802	202,598	4,759
Advertising Production	31,450	49,003	15,771	15,771	15,771	19,317	42,256	35,235	24,873	0
Audit Fees	0	0	0	0	0	0	0	0	0	36,757
Bad Debts	0	0	0	0	0	0	0	0	0	382
Communications	54,352	0	0	0	0	0	0	0	18	76,951
Contractual Services	0	0	194	0	0	565	0	0	8,076	97,609
Depreciation and Amortization	70,972	33,618	33,618	26,148	26,148	33,618	11,206	11,206	44,824	82,179
Interest	0	0	0	0	0	0	0	0	0	21,987
Administrative Service Fee	16,671	6,669	6,002	4,668	4,668	4,001	2,001	2,001	4,001	16,004
Multi-State Dues	0	26,986	0	4,435	7,430	0	6,679	0	0	0
Public Relations	1,617	3,590	3,590	3,590	3,590	0	3,590	3,590	0	11,257
Other	1,183	0	0	0	0	0	0	0	0	32,762
Personal Services	458,652	183,461	165,115	128,422	128,422	110,076	55,038	55,038	110,076	440,306
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	18,539
Supplies and Materials	30,586	12	12	12	12	0	0	0	0	359,214
Travel	5,582	1,394	1,396	1,396	1,396	0	0	0	0	28,764
Utilities and Rent	753	189	189	189	189	0	189	189	0	153,069
TOTAL OPERATING EXPENSES	721,957	367,104	249,688	208,432	212,778	320,371	190,480	131,061	394,466	1,380,540
OPERATING INCOME	2,232,727	5,769,984	981,647	618,232	1,353,329	245,548	1,147,606	107,635	(389,980)	(1,509,021)
NONOPERATING REVENUES (EXPENSES)										
Security Lending Transactions	0	0	0	0	0	0	0	0	0	1,018
Interest Earnings	0	0	0	0	0	0	0	0	0	8,256
Gov FA Disp Proceeds	0	0	0	0	0	0	0	0	0	0
Gain(Loss) on Sale of Asset	0	0	0	0	0	0	0	0	0	0
OPEB Expenses	0	0	0	0	0	0	0	0	0	(98,994)
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	(89,680)
NET INCOME BY PRODUCT	$ 2,232,727	$ 5,769,984	$ 981,647	$ 618,232	$ 1,353,329	$ 245,548	$ 1,147,606	$ 107,635	$ (389,980)	$ (1,598,701)
PROFIT AS A % OF REVENUE	14.82%	39.85%	25.84%	26.40%	34.93%	10.82%	32.92%	14.91%	N/A	N/A

NOTE: THIS IS 'TWELVE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment, Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing.

Classification of Revenues, The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations, investment income, and gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and twelve months ended June 30, 2011 was $75,668 and $351,755, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended June 30, 2011, promotional credits resulted in a revenue reduction of approximately $4,714 and an expense reclassification of approximately $3,574. For the twelve months ended June 30, 2011, promotional credits resulted in a revenue reduction of approximately $35,508 and an expense reclassification of approximately $27,273.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 6/30/11	Quarter Ended 6/30/10	Year To Date 6/30/11	Year To Date 6/30/10
Lotto	$122,792	$130,731	$694,034	$543,364
Scratch	$306,181	$134,468	$683,781	$402,006
TOTALS	$428,973	$265,199	$1,377,815	$945,370

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	June 30,	
	2011	2010
Short-term investment pool	$2,154,658	$1,112,340
Cash on deposit with State Treasurer	553,130	1,876,708
Cash in revolving deposit account	10,000	5,284
Petty Cash & Cash on Hand	50	1,323
TOTALS	$2,717,838	$2,995,655

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $27,423 at June 30, 2011 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,039,454, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include $670 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at June 30, 2011, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2011. The allowance for ticket returns is $228,090 at June 30, 2011. The return of vendor fees related to the allowance for returns is $13,229.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $313,654 stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At year end, supplies inventories totaled $53,971. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011
Leasehold Improvements	$ 45,448	$ -	$ -	$ 45,448
Furniture & Equipment	$ 1,460,176	$ 955,590	$ -	$ 2,415,766
Accumulated Depreciation	$ (456,052)	$(269,153)	$ -	$ (725,205)

Receivable – Equipment. The equipment receivable by the Lottery of $1,625,000 was for 250 on-line vending machines due from the Lottery's primary vendor on June 30, 2010.

Other Current Assets. Other current assets include the following:

	June 30, 2011	June 30, 2010
Prepaid Expenses	$27,175	$90,497
Employee Advances	-	-
TOTALS	$27,175	$90,497

The prepaid expense amount consists of $13,000 for booth fees for upcoming summer fairs, and $14,175 for prepaid commissions and vendor fees related to deferred revenue.

Transfer Obligations. The account "Transfer Obligations" is $2,787,352 payable to the General Fund at June 30, 2011.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2010	Net Leave Earned/(Used)	Balance June 30, 2011
$226,833	$(27,664)	$199,169

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and twelve months ended June 30, 2011 retailers earned bonus commissions of $81,035 and $405,355, respectively. For the quarter and twelve months ended June 30, 2011 total commissions were $616,903 and $2,716,363, respectively.

OPEB (Other Post Employment Benefits) Implicit Rate Subsidy LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2011 and 2010 are as follows:

Year ended June 30,	2011	2010
Annual Required Contribution	$ 98,994	$ 83,673
Adjustment to annual required contributions	-	-
Annual OPEB cost	$ 98,994	$ 83.673
Contributions made	-	-
Increase to net OPEB obligation	$ 98,994	$ 83,673
Net OPEB obligation – beginning of year	$ 299,861	$ 216,188
Net OPEB obligation – end of year	$ 398,855	$ 299,861

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal year ended June 30, 2011:

Insurance	$ 8,614
Warrant Writing Services	732
Payroll Services	4,575
Audit Fees	36,757
Computer Fees	35,797
Printing	944
State Accounting System Support	4,777
Supplies & Materials	7,760
Mail Processing Fees	7,678
Telecommunications	46,937
Vehicle Rental Fees	372
Administrative Service Fees	66,685
Other	982
TOTAL	$ 222,610

4. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended June 30, 2011, the prize expense of $5,479,094 is 51.21% of net Lottery ticket revenue of $10,698,295. For the year ended June 30, 2011, the prize expense of $24,777,918 is 53.82% of net Lottery ticket revenue of $46,035,296.

5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended June 30, 2011, the net revenue payable to the State General Fund totaled $2,787,352.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,688,570 as of June 30, 2011 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	June 30, 2011	June 30, 2010
Powerball Prize Reserve Account	$ 682,526	$ 518,311
Powerball Set Prize Reserve Account	170,632	172,770
Powerball Unreserved Account	162,712	207,326
Wild Card Prize Reserved Account	265,210	233,604
Hot Lotto Set Prize Reserve Account	357,097	300,638
Mega Millions Prize Reserve Account	50,393	(2,263)
Total	$1,688,570	$1,430,386

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010. As a start-up game, the reserve was negative at the year end as the Lottery had not built up enough history and accumulated enough sales to create an excess reserve.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $20 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $200,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added

Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights. In January 2008, the Lottery added the Sizzler option to the Hot Lotto game. For an additional bet, the Sizzler option provides non-jackpot winners the chance to multiply their prize amount by three.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five

eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire began on November 1, 2009 with the final drawing on January 1, 2010. The tickets were sold sequentially across the state with 1 to 150,000 available. There were 400 - $50 instant win prizes for every 375th ticket purchased. The final drawings were held on January 1, 2010 and consisted of one $1 million dollar top prize, five $100,000 prizes, and five $10,000 prizes. This game will begin again on November 1, 2011 with the final drawing on approximately January 1, 2012. The number of tickets available will be 125,000 with an early bird prize of $10,000 being awarded in late November.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of June 30, 2011, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $9,135,000. Total annual payments due as of June 30, 2011 are as follows:

FYE	
2012	$ 2,155,000
2013	2,155,000
2014	2,155,000
2015	2,120,000
2016	550,000
	$ 9,135,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $11,099 through August 2011. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at June 30, 2011 are as follows:

FYE	
2012	$ 89,977
2013	85,827
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	390,432
Less: Interest	(47,635)
Present value of Minimum Payments	$ 342,797

11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures.* The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 51% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 49% of the prize reserves are invested in Federal Agencies and have an AAA credit quality

rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2010, the duration for the U.S. Government Treasury securities was 1.036 years and for the Agency securities was 0.739 years.

-Alternative accessible formats of this document will be provided upon request.